

**A STUDY ON THE FOODSERVICE INDUSTRY IN KOREA:**

**BY**

**Sojung Heo**

**THESIS**

Submitted to  
KDI School of Public Policy and Management  
In partial fulfillment of the requirements  
For the degree of

**MASTER OF BUSINESS ADMINISTRATION**

2003

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## **ABSTRACT**

### **A STUDY ON THE FOODSERVICE INDUSTRY IN KOREA:**

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In spite of the short history of family restaurant in Korea, the industry has achieved robust growth for last 15 years. It has been changing the landscape of the whole foodservice industry by forming new eating-out culture as well as by expanding the market volume of foodservice industry.

Initially, the substantial growth has been driven by social, cultural and economical changes such as busier lifestyle, westernization of eating pattern and increase of income level in a booming economy. Then after the Korean financial crisis, the industry as a whole has chased undifferentiated growth strategy to survive under severe competition. However, profitability has been deteriorated because the growth stemmed from multi-store strategy. While most of the family restaurant companies have been focusing on volume without profits leading to financial difficulties, some successful players have captured the market by leveraging their core competence and have evolved from the second movers to market leaders.

Among them, CJ Foodville Company has accomplished incredible performance by deploying a well-managed growth strategy. First, the company focused on niche market by providing optimal value rather than the best one. Next, new brand launching has helped the company develop new market and cover various types of consumers' values and needs. Finally, for the implementation of strategy, CJ Foodville achieved the alignment between business strategy and management practices.

Although the business environment of family restaurant industry has been tougher than ever, I believe that some powerful leaders may obtain an opportunity to open new territory in the industry.

## **TABLE OF CONTENTS**

<b>1. INTRODUCTION</b>	<b>1</b>
<b>1-1 THESIS OBJECTIVE</b>	
<b>1-2 ORGANIZATION &amp; METHOD OF RESEACH</b>	<b>1</b>
<b>2. OERVIEW OF FOODSERVICE INDUSTRY</b>	<b>2</b>
<b>2-1 INDUSTRY ANALYSIS</b>	<b>2</b>
<b>2-2 KEY PLAYERS OF KOREAN FAMILY RESTAURANT MARKET</b>	<b>8</b>
<b>2-2-1 COCO'S</b>	<b>8</b>
<b>2-2-2 T.G.I.F</b>	<b>9</b>
<b>2-2-3 VIPS &amp; SKYLARK</b>	<b>11</b>
<b>2-2-4 OUTBACK</b>	<b>12</b>
<b>2-2-5 OTHERS (Bennigan's, Marche, <a href="#">Sun@Food</a>)</b>	<b>14</b>
<b>3. CASE STUDY OF CJ FOODVILLE</b>	<b>16</b>
<b>3-1 CJ GROUP</b>	<b>16</b>
<b>3-1-1 History of CJ</b>	<b>16</b>
<b>3-1-2 Affiliated companies</b>	<b>18</b>
<b>3-1-3 Foodservice Task Force Team</b>	<b>20</b>
<b>3-2 CJ FOODVILLE</b>	<b>21</b>
<b>3-2-1 First Round (1994-1999)</b>	<b>21</b>
<b>2-2-2 Second Round (2000-2002)</b>	<b>23</b>
<b>2-2-3 Third Round (2003- )</b>	<b>26</b>
<b>3-3 KEY SUCCESS FACTORS</b>	<b>28</b>
<b>3-3-1 Positioning</b>	<b>28</b>
<b>3-3-2 New brand strategy</b>	<b>29</b>
<b>3-3-3 Management Practices</b>	<b>29</b>
<b>4. CONCLUSIONS</b>	<b>30</b>

## **LIST OF TABLES**

1. Expenditure on Food and Meals Outside of Korean Household	5
2. Financial Performance of CJ Foodville	24
3. Ratio of Labor Cost to Revenue	26
4. Korean Taste Profile	27

## **LIST OF FIGURES**

1.Classification of Foodservice Industry	3
2.Dynamic Environment in Foodservice Industry	6
3.Value Proposition of CJ Foodville	21

# **1. INTRODUCTION**

## **1-1 Thesis Objective**

One of the most common pitfalls for successful players when they face changes in business environment or in industrial evolution is that they often fail to respond effectively. As the industry evolves, companies should deploy appropriate business strategies from production, marketing to human resource management. Moreover, all the management practices should be congruent with the business strategy for a sustainable growth.

The concept of family restaurant was introduced in 1988 in Korea and since then many companies of this nature have been established. In spite of the attention and investments, however, many companies including global franchises failed to secure a market in Korea. The purpose of this thesis is to find what business strategy should be selected, how this should be carried out in alignment with other managerial elements in the family restaurant industry, and to give some implications on well-managed growth strategy through industry analysis and case study.

## **1-2 Organization and Method of Research**

The thesis will, first provide an overview of the Korean foodservice industry, the family restaurant market and address its growth challenges. It will then discuss the performances of major family restaurant players and their growth strategies.



Secondly, the case study on CJ Foodville will be reviewed in order to analyze what the company did to succeed in the industry and how it developed a well-managed strategy in response to the changing environment. The case will provide the background of CJ Foodville, its financial performances, and some key success factors. Finally, the direction for future growth will be added.

In order to conduct this research, various types of literature were reviewed in order to approach the foodservice industry in a more objective way. The sources included the academic books listed, a series of industry and business magazines, and annual reports as well as interviews with managers of CJ Foodville and rival companies.

## **2. OVERVIEW OF FOODSERVICE INDUSTRY**

### **2-1 Industry Analysis**

There are several points to consider when eating out: taste, service, price, atmosphere, accessibility, and hygiene. Among them, a combination of taste and service has taken an important role to deliver the best value to customers, and workforce is at the core of value creation. On the other hand, as the industry grows, various styles of restaurants were introduced in order to adapt to consumers' changing preference.

## Classification of Foodservice Industry

The foodservice industry can be categorized into institutional foodservice (meal service business) and commercial foodservice<sup>1</sup>. The commercial foodservice can be divided into three sub-categories: full service restaurants, quick service restaurants and take-out restaurants according to the provided service and products.

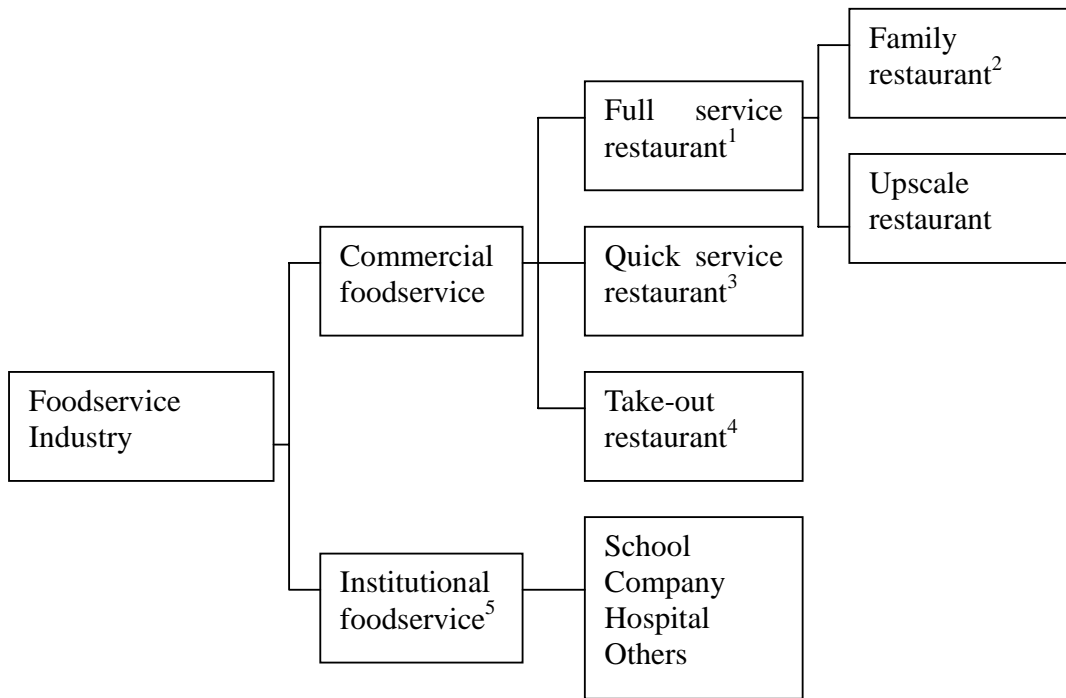


Figure 1. Classification of Foodservice Industry

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<sup>1</sup> **Full service restaurants** – provide meal and drinks with full service by wait staff at mid-high price, including family restaurants and fine dining restaurants.

<sup>2</sup> **Family restaurants** – serve various kinds of meal and drinks to usually families and younger generation in a cozy ambience with parking space.

<sup>3</sup> **Quick service restaurants** – provide limited meal and drinks at cheap price through self-service or drive-through, used interchangeably with fast-food restaurants

<sup>4</sup> **Take-out restaurants** – provide fresh sandwiches, store-baked breads to eat at home or other places

<sup>5</sup> **Meal service business** – contract catering service to institutions such as hospitals, schools, army facilities and companies.

## **Growing Industry**

For the past 25 years, the Korean foodservice business has become a large industry by achieving an annual growth of almost 20%. The total revenue has risen from 431 billion won to 40 trillion won, between 1976 and 2002. The rapid growth has been driven by demographical, social, and economic changes such as aging population, busier lifestyle, and increase of disposable income level among Korean consumers.

**Aging society.** As Korea becomes mature and aging (see Appendix A), there will be more spending on food service industry. The population of over 50 years old, 21.3% of the total population in 2002, is projected to increase to almost 50% by 2022. In 2002, the birth rate was 1.17, which was the lowest among the O.E.C.D countries; the total dependency ratio was also declining (SERI report, October 2003). This senior generation will emerge as a main consuming power and rely on more prepared meal and foodservice.

**Increasing expenditure on foodservice.** The ratio of eating out on food and beverage has risen from 6% to 41.9 % between 1983 and 2002. (Table 1.) Expenditure on eating out also increased significantly from 7,000 won to 200,000 won per household. This means that Koreans' eating habits have been changing: less are eating at home and more are eating out. In addition to increasing income level, the status of working women boosted the eating-out expenditure.

Table 1. Expenditure on Food and Meals outside of Korean Household

Year	Consumption Expenditures	Food and Beverages Won	Increase	Meals Outside Won	Increase	MO to FB
1983	271,015	106,859		7,045		6.6%
1984	294,396	112,627	5%	7,947	13%	7.1%
1985	317,025	118,898	6%	8,871	12%	7.5%
1986	348,193	126,658	7%	11,316	28%	8.9%
1987	400,031	141,216	11%	17,106	51%	12.1%
1988	467,636	162,827	15%	22,550	32%	13.8%
1989	594,287	189,532	16%	36,742	63%	19.4%
1990	685,662	220,834	17%	44,844	22%	20.3%
1991	818,340	258,610	17%	55,335	23%	21.4%
1992	941,949	285,726	10%	66,897	21%	23.4%
1993	1,020,953	301,675	6%	79,630	19%	26.4%
1994	1,140,432	341,574	13%	97,795	23%	28.6%
1995	1,265,890	367,080	7%	115,745	18%	31.5%
1996	1,426,853	409,502	12%	136,569	18%	33.4%
1997	1,489,541	427,458	4%	155,025	14%	36.3%
1998	1,316,222	365,859	-14%	122,756	-21%	33.6%
1999	1,478,876	412,056	13%	146,363	19%	35.5%
2000	1,632,298	447,018	8%	175,990	20%	39.4%
2001	1,762,124	463,582	4%	190,480	8%	41.1%
2002	1,834,812	481,049	4%	201,543	6%	41.9%

Source: Korea National Statistical Office

### Intense Competition Across The Industry

The industry will face a new breed of tough competition as manufacturers, distributors and even grocers try to grab the market opportunity. Above all, the home meal replacement<sup>1</sup> market will become larger than any other sector as consumers prefer food prepared away from home that is suitable for at-home

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<sup>1</sup> **Home meal replacements** – Freshly prepared meal solutions, which are primarily consumed at home or off-premise.

dining. There are huge potential rivals from brand new family restaurants, (“Huerea” of Hyundai Gnet), meal service companies, (“Carnastation” of Sinsaegye food system, “Foodwon” of CJ Foodsystem), professional Banchangagye, (“Days” of Doosan KFC running Burger King), specific restaurant specializing in noodle, pasta or ethnic food, (“Nzel” of Pulmuwon ECMD), chicken and pasta restaurant (“Mom’s Touch” of Popeye’s).

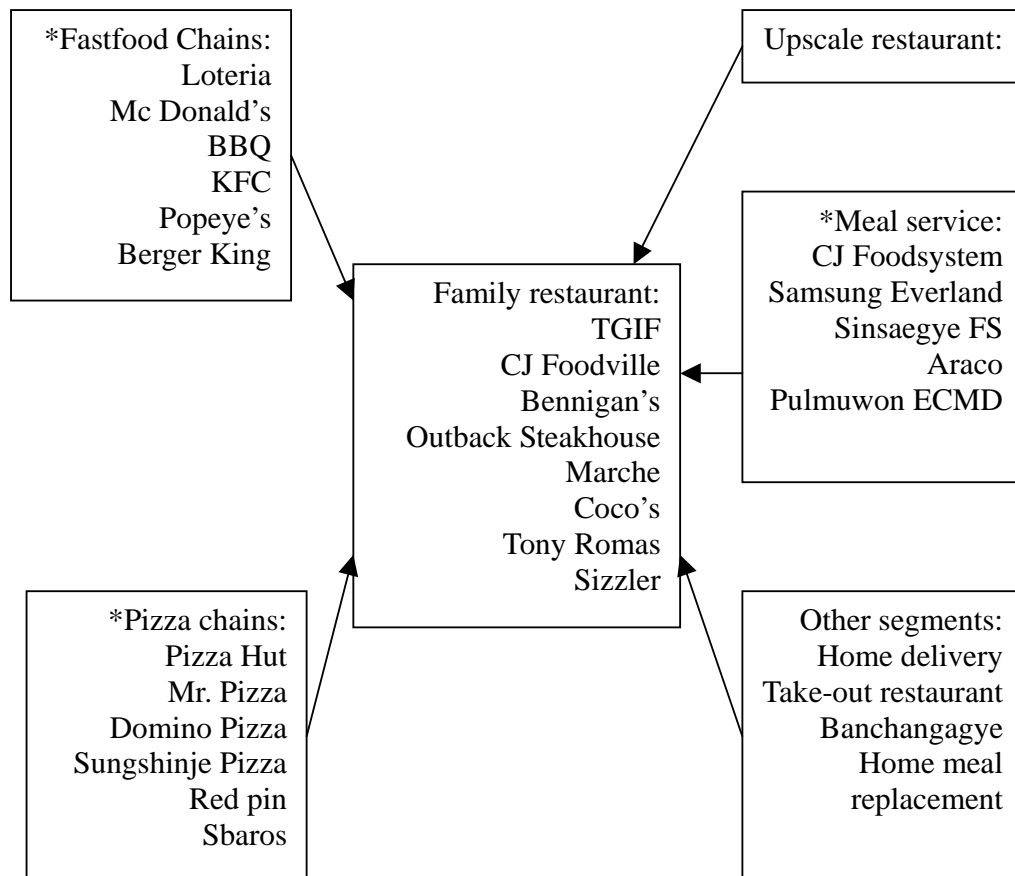


Figure 2. Dynamic environment in Foodservice industry (Ranked by volume)

### **Severe Labor Shortage**

While manpower is more important than any other industry, labor shortages become more severe as the traditional labor pool shrinks and industrial turnover rate reaches up to 30%. Therefore, companies should spend more money on hiring, training, retaining their employees. According to McKinsey research, in American companies of this industry, the difference between operators with low turnover and high turnover is a 25% improvement in costs. Employees with high loyalty are core asset to achieve cost advantage.

### **Labor-Oriented Industry**

In the foodservice industry, food, because of its perishable nature, should be consumed as soon as produced. Even if the products are supplied through a semi-processed treatment in some cases, it is not easy to stock them for a long time. Therefore, the ability to coordinate between demand and supply is absolutely needed. At the same time, foods are provided not only in the form of products but also in the form of service. Service has an instant affect on how consumers think of the quality of food. As such, it is vital to have skillful cooperation between back-of-house (products) and front-of-house (service) workers. If job conflicts among employees are reduced, they will work more productively and efficiently and maximize customer satisfaction.

## **2-2 Key players of the Korean Family Restaurant Market**

At the introduction stage of family restaurants, there were only a few operators such as Coco's, T.G.I.F and Skylark, and the total sales volume was not big enough to make profits. There were many entries between 1994 and 1997 (see Appendix B). Although there was a discontinuity in market expansion caused by the Korean financial crisis in 1997, the family restaurant industry has achieved robust growth for the last 15 years. In 2002, the market volume of family restaurants reached 380 billion won based on sales revenue of the top 7 companies. Market expansion was mainly due to a competitive multi-store strategy. Most of the revenue growth that occurred has come from building more stores. While most of the family restaurant companies have been focusing on volume without profits leading to financial difficulties, some successful players have captured the market by leveraging their core competence, and have evolved from second movers to market leaders. As the industry became mature, most of the players launched many second brands for niche markets to create a new profit model.

### **2-2-1 COCO'S**

In 1988, Midopa Departmentstore established Coco's as the first family restaurant in the domestic market through technical alliance with Coco's Japan. Since then, the domestic foodservice market, which was dominated by fast food restaurants, has been reorganized toward family restaurants. Coco's was originally based in the US, but the one established in Korea looked Japanese in style. The atmosphere was cozy and quiet, and the menu was adapted for Korean taste. For this reason,

Coco's soon became a familiar name.

Despite having been recognized as a pioneer in the family restaurant industry, Coco's lost the opportunity to advance to a higher position. When entering the market in 1992, T.G.I.F set its position with the concept of casual dining. Coco's even until then did not have a clear target market. In the mid and high end market, the dominant players included T.G.I.F, Ponderosa, Marche, Beniggan's and Outback Steakhouse. When Coco's decided to set its position in the lower and mid end, Skylark had already penetrated the market. When it comes to franchising strategy, Coco's was expanded through franchising rather than company-owned restaurants. Its franchise system made the equation of product and service difficult. Consequently, its sales volume has decreased continuously from 27 billion won in 1999 to 16 billion won in 2002. The net loss was 8.7 billion won only in 2002.

Coco's

Unit: won in millions

	1999	2000	2001	2002
Capital	5,000	5,000	5,000	5,000
Revenue	27,000	24,709	19,250	16,602
Net profit	-8,294	-6,556	-11,413	-8,696
Employees		949	949	744
No. Of Store	31	29	35	20

## 2-2-2 T.G.I.F

T.G.I. Friday's set its business target on the younger generation in the twenties who were familiar with international food and culture. It also accommodated a cozy ambience for families with children. The company provided high end products for high-income customers so that T.G.I.F grew incessantly and maintained its top-



notch position before the economic crisis. The company was ranked as the best family restaurant franchise in terms of brand power in a survey conducted by the Korea Management Association in 2001.

Its competitive advantage lay in not only providing the best food. It made eating “fun” and offered the best quality of service. From its vivid red and white stripe table covers, uniforms decorated with various badges and mascots to the bartenders’ entertainment, its customers could enjoy new cultural experiences. The company invented the idea of customer satisfaction called “customer delight action program”. One of these service differentiations is the “puppy dog service”, that is, the waiters and waitresses kneel or squat rather than stand when they receive orders from customers, bringing their eyes level to those of the customers. The service was benchmarked not only by the food service industry but also by hotels and airlines.

However, as many followers imitated its service practices, the difference from its competitors became blurred. Although the company kept a leading position in terms of brand power and market share, the increase rate of revenue dropped from 11.99 to -7.01% in 2002.

To attract more customers, the company opened more outlets up to 25. At the same time, it had co-marketing with competitors to expand its market and with telecommunication and credit card companies, offering up to 25% discount, in

order to survive in severe price competition. In spite of these efforts, the sales volume has been lagging for several years and decreased by 6 billion won down to 78 billion won in 2002. Net profit on sales was only 1.34% because the company did not have cost leadership. The cost of goods sold and labor on revenue were excessive, taking almost 50% and 25% of sales respectively. In May 2002, the Lotte Group, which is a dominant position in food, tourism and merchandizing industries, acquired the company.

T.G.I Friday's

Unit: won in millions

	1999	2000	2001	2002
Sales Profit		6,000	6,000	7,020
Revenue	38,000	75,250	84,270	78,360
Sales Profit		2,054	1,457	641
No. Of Store	12	17	21	20

## 2-2-3 VIPS & SKYLARK

In 1994, starting as a business unit in CJ Corporation, CJ Foodville has been growing to run 68 family restaurants and 10 take-out food outlets in 2003. As of 2002, the company posed 69 billion won in sales revenue, 45% up from the previous year. Its first brand Skylark seemed to follow the format of Coco's in terms of menu, restaurant interior, and price and target customers. However, the revenue of Skylark increased up to nearly 32 billion won in 8 years, twice that of Coco's since Skylark had unwavering target market and business strategy.

VIPS, its second but luxurious brand, was developed to expand its business area towards the high-end market. Although its format imitated that of Sizzler, VIPS

grew to create 36 billion won from its 13 restaurants in 2002.

After spinning off, the company expanded significantly the market by acquiring foreign restaurant chain Ponderosa and local franchise E-together so that it could cover most of the major cities across the nation by adding 24 new Skylark outlets in only 2002. CJ could initiate cost leadership through economy of scale attained from the multi-store strategy. At the same time, CJ has developed a new market by introducing new brands HanCook specializing in Korean food, and Delcucina for the take-out market.

CJ Foodville

Unit: won in millions

	1999	2000	2001	2002
Capital		17,585	17,585	17,585
Revenue	30,300	443,00	48,340	69,940
Sales Profit			3,690	4,362
<b>Skylark store</b>	18	21	30	54
<b>VIPS store</b>	3	3	8	12

#### 2-2-4 OUTBACK

Through a huge discount program, with the catch phrase “serving at the price of 5 years ago”, Outback Steak House gained over 55 billion won sales volume in 2002. Although the company was one of late entries, established in 1997, it became the most profitable companies in this industry, recording the highest rate of sales profit for the last 2 years. Its revenue increase was 40% in 2002.

It is imperceptible to recognize the difference of its target market, price, menu and atmosphere of outlets from those of its competitors. However, it succeeded in

differentiating through its unique “grassroots marketing” strategy. Grassroots marketing meant the company encouraged community involvement through several nonprofit activities. The company spends 0.5% of its sales for the community by supporting or sponsoring community activities such as sports games, food festivals, and various community events. The company organized a “Kids tour program” for children to visit the store and have free meal. In order to develop community market in direct, each restaurant visits or invites target customers and provides free lunch and drinks for potential market. This community-oriented marketing created positive image on the company and also created the instant sales increase.

Outback provided ownership opportunities at the individual restaurant level. Ownership opportunities for restaurant-level general managers were atypical in the industry. However at Outback, a restaurant general manager can invest up to 20 million won for about 5 percent share of the net profit from the restaurant as a monthly bonus. Low-level managers of individual store also can earn 0.01% of the net profit except for their basic salaries. At the same time, the company empowers the general managers. The general manager of each store had sole rights to evaluate employees and decide their wage according to the performance. As a result, outbackers are highly motivated and enthusiastic to increase the value of their restaurant. In the manner, the company can be flexible in response to the need of its customers because each restaurant can develop new menus and choose appropriate promotion that fit it.

Those programs including grassroots marketing, ownership, and empowerment

helped the company expand the market in a short period. The number of restaurants increased by 300% for the last 3 years. Outback was ranked as the best family restaurant franchise in terms of service quality index in a survey conducted by the Korea Standard Association in 2002 and 2003.

#### Outback Steakhouse

Unit: won in millions

	1999	2000	2001	2002
Capital		1,922	1,922	1,922
Revenue	7,500	13,612	32,786	54,799
Sales Profit		-15	1,680	2,970
Employees			852	1,456
No. Of Store	3	8	17	23

#### 2-2-5 OTHER PLAYERS

Most of the family restaurant companies already stepped in new markets such as take-out or specializing restaurants. It was essential to develop new business area since existing market was mature and the market share among competitors has been stabilized for the last 3 years.

**Amoje**, affiliate of Hotel Amiga, owned family restaurant Marche, take-out restaurant Café Amoje and Chinese restaurant Uncle Wings. Marche means market place, in which customers walk around and enjoy watching their food being cooked in front of them. Each food section becomes a kind of a menu itself, kitchen and a place to have fun for the customers. The customers choose and deliver their own food by self-service. But self-service is not the only merit. By bringing out the back line jobs to the front line, the company could eliminate service process and cost that other family restaurants usually have and enhance

credibility for hygiene and safety.

Amoje

Unit: won in millions

	1999	2000	2001	2002
Capital		1,300	4,300	4,300
Revenue	11,000	25,671	42,000	50,179
Sales Profit		1,282	2,569	1,558
No. Of Store	4	7	10	10

**Bennigan's** was one of the top 4 companies, established by Tongyang Confectionery in 1995. It earned 70 billion won from its 14 franchises in 2002. Although it maintained an average of over 30% of annual sales increase for the last 3 years, its profitability has been eroded. After spinning off from its mother company, the company acquired an events company "Jemiro". By co-marketing with world-class performances or events, it placed emphasis on "culture marketing". In 2003, a large-scale Chinese dining restaurant "Mr. Chow" was introduced in Chungdamdong with total construction cost of 6 billion won.

Bennigan's

Unit: won in millions

	1999	2000	2001	2002
Revenue	28,600	40,300	49,212	61,861
Sales Profit			5,116	5,469
No. Of Store	9	10	13	14

**Sun@Food** consists of four brands: Tony Romas, Spagettia, Mad for Garlic and Pepper Lunch. Tony Romas is a family restaurant specializing in barbeque rib and Pepper Lunch is in between full service restaurant and quick service restaurant. In spite of adding two more outlets in 2002, Tony Romas' sales increase was lower than 20% of the industry average. Its revenue was 14 trillion won from 6 outlets.

Sun @ Food \*

Unit: won in millions

	1999	2000	2001	2002
Capital		1,500	2,500	2,500
Revenue	7,500	18,231	23,844	26,908
Sales Profit		1,389	2,058	2,407
Net Profit		701	1,196	1,557
Employees		315	532	337
Tony Romas store	4	4	4	6

\* including Tony Romas, Spagettia, Mad for Garlic and Pepper Lunch

**Sizzler**, launched by Daehan Confectionery in 1995, earned 12 billion won from 4 branches and invented a second brand, Elmon Tray for the take-out market.

Sizzler

Unit: won in millions

	1999	2000	2001	2002
Capital			1,600	1,600
Revenue	6,700	8,000	9,851	13,335
Sales Profit			1,242	1,567
Net Profit			521	1,072
No. Of Store	2	3	5	4

### 3. CASE STUDY OF CJ FOODVILLE

#### 3-1 CJ Group

##### 3-1-1 History of CJ

CJ Corporation, mother company of the CJ Group, was the first manufacturing affiliate of the Samsung Group, which was established by founding chairman

Byung-Chull Lee in 1938. Though Mr. Lee's little business was in trade, selling dried Korean fish, vegetables, and fruit to Manchuria and Beijing, Samsung eventually had its own flour mills and confectionery machines, moving on to manufacturing and sales operations, ultimately becoming the root of modern global corporation by starting CJ Corporation.

In 1953, when Korea was still marred by the Korean War, CJ Corporation made a big business by refining and selling sugar at a half price of imported one. While Samsung expanded its business areas to insurance, textile, media, electronics, advertisement and even aviation industry, CJ Corp. was the backbone of Samsung and an abundant financial source. Furthermore, CJ Corp. was called the "military academy of Samsung", fostering the talented staff until the company was split off from the Samsung Group in 1993.

Mr. Jay-Hyun Lee, the eldest grandson of the founder, and the current chairman and CEO of CJ Group, took over CJ Corporation in 1993. Since then Mr. Lee have launched various business lines to cover media, entertainment, home shopping and logistics as well as its traditional food and food service and bio pharmacy. His business strategy was very similar with his grandfather's in terms of that both of them extended their businesses through diversification. However, the younger Lee demonstrated to be a rather risk taker and much aggressive in order to enter the new businesses rapidly.

On his third year, he became the second biggest shareholder of DreamWorks with



US\$300,000,000 equity investment and began the entertainment business. The deal meant a big change of conceptualization for CJ, challenging to lift the limits of a fixed image of over 40-year-old in the food business. Although CJ has not received enough dividends, it took the distribution right in Asia of DreamWorks with the position of investor. CJ then began CJ CGV (CJ Golden Village), a multiplex theater business in 1996, CJ Entertainment, a movie producer and distributor in 1997 and acquired Music Network (CJ Media). Until 1999 CJ focused on diversification of its business units - acquired Samgoo Shopping (home shopping), Korea First Investment & Trust (a finance business), established CJ Frozen Foods Company, CJ GLS (a total logistics provider), CJ Food System (a meal service company). When CJ acquired 39 Shopping in 2000, CEO Lee found that it was the time for a change.

Its new slogan “Only One” meant that the company would focus on its core business with core competence. With this principle, CJ divested whatever business units were irrelevant to its strategic business. CJ, on the other hand, decided to spin off most of the business sectors into independent companies in 2000. Finally, CJ set four core business categories: food and food service, bio pharmacy, media and entertainment, and home shopping and logistics.

### **3-1-2 Affiliated companies**

All of CJ’s businesses from a traditional manufacturing to service and culture industry have helped CJ reach its goal of providing health (food and food service),

pleasure (entertainment and media), and convenience (home shopping) to its customers and shared their capabilities

**Food and Food Service Business:** This business includes from food material, processed food, restaurants, and food supply business. A cash cow CJ Corporation has produced a lot of food materials for 50 years including sugar, flour, and oil. The sugar business holds almost 48 % portion of the domestic market. It also leads the processed food market through expanding its product lines from seasonings, retort food, and seamed rice to processed meat. Its first new business, CJ Foodville is a leading family restaurant. For the health food market, nutritional food and vitamins were introduced in 2002. Its bakery franchise Tous Les Jours has more than 300 shops. CJ FoodSystem has been specializing in contract catering service by serving 700,000 meals a day and also offers food materials distribution through restaurants, hotels, and schools. MorningWell covers the frozen food market, and Haechandle produces Oriental food seasonings including hot pepper paste and soy sauce products.

**Bio Engineering Business:** As a pharmaceutical-specialized company, CJ has accumulated bio fermentation technology for a long time. The competitiveness of bio products helped food business develop innovative products.

**Entertainment and Media Business:** Starting with the equity investment from DreamWorks, CJ Entertainment has become a leading producer and distributor of entertainment products in the domestic market. It produced many successful movies including “JSA” and “Moosa”. It is now advancing into the Southeast Asian markets. CJ CGV operates a total of 18 multiplex theaters across the nation.

**Distribution Business:** CJ Home Shopping, as another cash cow in the CJ group, earned 1.4 trillion won in sales and 44 billion won in net profit in 2002.

### **3-1-3 Foodservice Task Force Team**

In 1994, CJ Corporation sought a new business line after separating from Samsung in order to eliminate the limited image of food material-related company. At the time, the family restaurant market was emerging with its potential growth opportunity in a booming economy. Because of low entry level, many restaurants were already established, which were not affluent enough to play across the nation. Since CJ had core competence in food manufacturing and also had financial capability provided by mother company, it was natural that CJ chose to run a family restaurant business. Task force team was created with most of the staffs from planning, marketing to constructing recruited through internal job posting.

They targeted families consisting of young parents and their children with Korean taste tailored menu at low and mid prices ranging from 4,000 won to 15,000 won. (Figure 3.) Although CJ made a technical alliance at 2% royalty on its sales with Skylark in Japan, it was much lower than that of competitors who paid 3-4% license fee and their relationship was much looser than that of rival companies. This favorable condition of contract helped CJ save the cost of sales and operation, and renew and develop its store design, logo and new menus independently and quickly in the future.

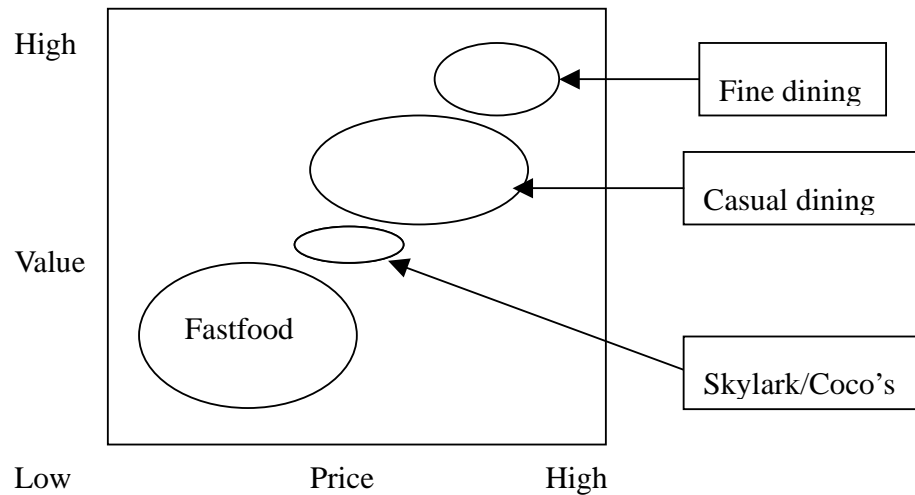


Figure 3. Value proposition

Interior of Skylark was designed to be practical and functional with clear store image. The success of this industry is largely dependent on its location where family can drive and spend one or two hours dining. Traditionally, the location should be near residential areas, shopping facilities or suburb with enough parking spaces. Finally, CJ opened its first outlet in Nonhyundong, a residential area in Kangnam, the southern part of Seoul.

### 3-2 CJ Foodville

#### 3-2-1 First Round (1994-1999)

After successfully penetrating the market, CJ started to develop new business line that could diversify business risk. In March 1997, CJ launched the new brand VIPS, a native brand for the high-end market.

Unfortunately, however, the whole industry flagged due to the Korean financial

crisis in November 1997. As the expenditure of eating out shrank, CJ's restaurant business unit was in deficit also. There were intense conflicts and disputes on whether the business should go on or not. Only one outlet was newly opened in 1998. Some staffs including those in construction and sales division were redeployed into other business units in CJ Corporation. However, CEO Lee did not give up. Instead of divesting the restaurant business, CJ strengthened its competitiveness through strict profit and loss management as well as reorganization.

While restructuring the profit formula, CJ downsized the number of regular jobs and increased temporary or contingent employees for new openings. The ratio of contingent employees over regular employees per outlet became 9 to 1 at some point. The common denominator among contingent employees is that they don't have the security or stability that permanent employees have. As such, they don't identify with the organization or display the commitment that other employees have (Stephen P. Robbins, *Organizational behavior*). In order to motivate temporary workers, CJ gave the opportunity to obtain permanent status. As permanent employees were selected from the pool of temporaries, they worked hard in hopes of becoming permanent.

To improve the productivity and the quality of service, CJ declared its 3S movement: simplification, standardization and specialization. All the job manuals were simplified so even temporaries could follow them and the whole job

process was integrated automatically by using technical device. For example, when the waiting staff clicks a menu on his/her PDA, the culinary team can prepare the food at the same time. The standardization of food materials and products removed the unlevelled quality of service, mainly caused by multi-store strategy. From the central kitchen, all food were prepared and delivered to each store to keep the same quality. Each store could focus on only customer service.

CJ implemented more aggressive approach called “breakfast program” to appeal exclusively to the neighbor community. Menus were expanded with side dishes such as kimchi, seaweed soup and rice. The introduction of the breakfast program increased 5% of the sales by attracting more customers for non-peak time.

### **3-2-2 Second Round (2000-2002)**

CJ Foodville grew to have 54 Skylark restaurants and 12 VIPS steak restaurants across the nation, generating 69 billion won of revenue with 3.2 billion won of net profit in 2002 through multi-store, multi-brand strategies. (Table 2.)

In 2000, CJ Corporation spun off its restaurant businesses into a new company, named Foodville. Although CJ’s financial performance was improving, its brand power and market share were not as high as those of the competitors. Consumers began to demand healthier foods, greater variety and service in nontraditional locations such as grocery stores, airports, and outdoor events. This forced it to expand menu offerings and to investigate nontraditional distribution channels and

restaurant designs.

Table 2. Financial performance of CJ Foodville

Unit: won

	2001	2002
Revenue	48,338,841,942	69,935,217,536
Cost and Expenses		
Cost of revenues	17,702,133,791	24,811,468,719
Labor & other related expenses	10,811,262,258	15,887,334,286
R & D expenses	154,381,570	350,511,966
License fee	588,951,112	707,205,638
General & administrative expenses	15,493,330,418	23,817,159,845
Income from operation	3,688,782,793	4,361,537,082
Non-operating income	625,103,234	544,507,466
Non-operating expense	300,780,991	384,321,782
Income before tax	4,013,105,036	4,521,722,766
Net income	2,769,921,673	3,211,073,014
Earnings per common share	913	788

One of CJ's most significant problems was that it was hard to find a place for freestanding restaurants. Fewer sites were available for new construction and those sites, because of their increased cost, were driving profit margins down. Therefore, CJ initiated a new distribution strategy. It focused on building smaller restaurants in nontraditional outlets such as airports, shopping malls and inside small buildings. In order to minimize a fixed investment on building cost, the owner of the building or space was participated as an investor and CJ shared the income according to the sales.

In this growth stage, CJ gained the market through M&A, acquiring American brand Ponderosa in 2001 and local franchise Etogether from Emart in 2002. This acquisition provided the support to expand its branches nationwide. Strategic

alliance with Emart, one of the biggest discount stores in Korea helped it attract more customers not only because it could save time and cost for constructing new outlets but also because it was more accessible for customers by being located inside Emart. Skylark became the biggest family restaurant in terms of the number of stores by opening 24 new outlets in 2002. The multi-store strategy resulted in economies of scale leading cost leadership.

Besides Skylark and VIPS, CJ broadened the range of its foodservice business by adding take-out restaurant “Delcucina” to meet the changing customer demand for fresh and healthy meal.

As number of outlets was increased, quality control became an urgent problem to solve. CJ devised the idea of holding a “morning market” every month in a bid to control the quality of food. “We display samples or photos of food ingredients and raw materials that our customers claimed to be unsanitary or not fresh and ask the suppliers to buy them back. Enhanced quality builds up trust between us and suppliers, thus removing the need of closer inspections, which takes up a lot of time.” (Korea Herald, August 11, 2003)

On the other hand, CJ kept no advertisement and TV commercial policy since it believed that advertisement does not boost sales. The reputation was accumulated and delivered by word of mouth. Instead, it diverted the resource to improving food quality and service. Investment on R&D doubled from 150 million won to



350 million won between 2001 and 2002.

Through efficient management practices, CJ could keep lower labor costs at 20% of its revenue than the industry average of 25 % (Table 3.) and achieved an average 4.59% of net income higher than the industry's average of 0.79%. (KIS report)

Table 3. Ratio of Labor Cost to Revenue Unit: %

	1996	1997	1998	1999	2000	2001	2002
Permanent	11.5	11.6	10.8	8.8	8.6	9.9	10.5
Part Timer	9.9	10.1	10.2	11.0	12.3	11.1	10.7
Total	21.4	21.7	21.0	19.8	20.9	21.0	21.2

Source: CJ Foodville

### 3-2-3 Third Round (2003- )

While other competitors recorded less than 20% sales increase in the first half of 2003 over the same period of the previous year, CJ gained 40% increase. CJ had more diverse businesses by launching new brands and set various strategies according to the product cycle of each brand.

First, for Skylark, CJ used concept renewal in order to prolong product life. CJ thought its existing image would be a trap for further growth. "The food service industry is very similar to the fashion industry, which incessantly requires renovation and should be responsive to the changing needs of its customers," a CJ Foodville manager said. Skylark removed its logos from outside signboards and upgraded its image from a low-end restaurant to a high-end "casual restaurant". Interior design was changed to resemble an American home. 30% of the total

outlets were already renovated. To improve the menu selection, CJ held customer menu competitions to encourage customer participation and to stay more close to customer taste.

Secondly, though the taste of Koreans have become more westernized or globalized, they still prefer the traditional foods. (Table 4.) CJ Foodville developed a new format of Korean family restaurant. While the existing family restaurant industry appears to have reached a mature phase and is not expected to grow as fast as it did in the past, the volume of family restaurant segment took up less than 1% of the entire foodservice industry. New brand launching for Korean food became imperative for capturing new sources of growth. “HanCook” is a family restaurant specializing in Korean food for the mid-high end market. The Korean food market takes almost 50% of total foodservice industry, 20,000 billion won. Given the assumption that the ratio of commercialized Korean family restaurants to Korean food market will gain 10% of foodservice sales, based on the ratio of the commercialized family restaurants over western food market, the projected volume

Table 4. Korean’s Taste Profile

Unit: %

Age	Korean	Japanese	Chinese	Western	Fast Food
10-19	30.5	5.7	12.4	19.0	32.4
20-29	59.5	1.2	6.0	10.7	22.6
30-39	65.6	6.9	8.1	11.9	7.5
40-49	61.3	13.3	10.0	10.0	5.3
Over 50	64.7	42.9	5.9	5.9	5.9
Total	56.2	7.9	9.1	12.4	14.3

Source: Korea Food Research Institute, 1996

can amount to 2,000 billion won. Although this business is in its infancy, it has

the potential opportunity and will help lengthen the business cycle of CJ foodservice.

As the domestic market became mature, VIPS restaurants chose globalization strategy. CJ registered its trademark in China and in other South Asian countries, including the Philippines, Malaysia, and Thailand. Also CJ developed a new channel in order to create a different market place. For instance, VIPS started selling various kinds of source through the on-line market.

### **3-3 Key Success Factors**

CJ Foodville Company has accomplished an incredible performance for the last 3 years by deploying well-managed growth strategy. Above all, the alignment between business strategy and management practices made CJ achieve sustainable growth.

#### **3-3-1 Positioning**

First, the company focused on a niche market by providing optimal value rather than the best one. According to a series of surveys, surprisingly, CJ Foodville hardly ranked as the best family restaurant while T.G.I.Friday's and Outback have been quite often at the top in terms of their taste, service, atmosphere and variety of menu. However, CJ got the highest points in the field of customer satisfaction in terms of value to money. CJ did not follow the dominant concept of the high-end

family restaurants in Korea, where most of them pay high royalty rate to American or European brands and serve western food and drinks. Instead, it had a clear target market for the families consisting of young parents and their children with Korean taste tailored menu at low and mid prices before the market was diversified. CJ then segmented the market and set higher position as the customers' taste and attitude were more customized and individualized.

### **3-3-2 New Brand Strategy**

Brand means not only products but also market in business development of CJ Foodville. Competitiveness of new brand stemmed from the technologies, know-how or business model of existing brand. As the industry evolved, new brand launching has helped the company develop new market and cover various types of consumers' values and needs. As a result, diversification as a growth strategy have reinforced the company image and extended business life cycle.

### **3-3-3 Management Practices**

All the management practices were congruent with its business strategy in order to maximize the result. In order to achieve cost leadership, CJ acquired E-together and opened its outlets inside Emart. This multi-store strategy reduced the cost of production and distribution through economy of scale. From the central kitchen, Skylark introduced a fast food concept to enhance productivity. VIPS restaurant reinforced salad bar section, which created higher margin than main dish. For promotion, it has no advertisement policy to reduce management expanse. At the

human resource side, it downsized the organization and increased part timers, however, CJ kept the quality of products and service and delivered the best value for money at the same time. By providing hiring opportunities to contingent workers, it increased retention rate and decreased turnover rate. Turnover was reduced by 36% down to 219% for part timers this year and 70% of new regular workers came from the pool of temporary workers. CJ could reduce the cost of selection, replacements and retention. Furthermore, CJ saved the cost of training and education because the employees were already well trained. This workforce with full of loyalty created the core advantage for further growth.

#### **4. CONCLUSIONS**

As this thesis mentioned above, the market of Korean family restaurant has expanded rapidly for the last 15 years. The continuous increase of disposable income level led Korean consumers to spend more money on eating out. As consumers' eating habits became diversified and customized, many second brands appeared for niche market. Changes in consumer taste and value will fuel a dramatic shift on the family restaurant industry from low-end market to high-end market.

On the other hand, the competitive intensity in family restaurants continues to

increase, as the industry is invaded from all sides by other business segments such as food material manufacturers, meal distributors and retailers. Therefore, the family restaurant companies should develop innovative responses to meet the changing environments and to capture the benefits of this growth.

Although most of the family restaurants recorded rapid growth, they stretched out through aggressive multi-store strategy, focusing on volume game without profits. One of the most significant tasks is to have a well-managed growth strategy through restructuring the profit formula and to implement the strategy through elaborate management practices from production and distribution to marketing and human resource management.

Although the business environment of the family restaurant industry has been tougher than ever, I believe that some powerful leaders may obtain an opportunity to open new territory in the foodservice industry

## APPENDIX A

### Aging population in Korea

Population items	2002	2007	2012	2017	2022
Total population	47,639,618	48,948,463	49,954,138	50,518,349	50,682,718
Increase rate: ‰	0.6	0.46	0.31	0.11	0
0-14 years old	9,792,573	9,171,846	8,171,560	7,395,633	6,832,336
	20.6	18.7	16.4	14.6	13.5
15-64 years old	34,074,591	34,984,188	36,091,847	36,336,556	35,447,259
	71.5	71.5	72.2	71.9	69.9
Over 64 years	3,772,454	4,792,429	5,690,731	6,786,160	8,403,123
	7.9	9.8	11.4	13.4	16.6
Median age	32.9	35.8	38.6	41.3	43.8

## APPENDIX B

### Introduction of Family Restaurant in Korea

Entry year	Brand
1988	Coco's
1992	T.G.I.Fridays
1993	Ponderosa
1994	Skylark
	Dennys
1995	Bennigan's
	Sizzler
	Tony Romas
1996	Chillis
	Italianis
	Marche
1997	UNO
	VIPS
	Outback Steakhouse

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